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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

**EX PARTE**

January 20, 1998

Ms. Magalie Roman Salas  
Secretary  
Federal Communications Commission  
Mail Stop 117  
1919 M St., N.W., Room 222  
Washington, D.C. 20554

Re: CC Docket No. 97-149, In the Matter of 1997 Annual Access Tariff Filings

Dear Ms. Salas:

On January 16, 1998, Mr. Tim Morrissey, Ms. Donna Quante and Ms. Betty Ann Fuess of Southwestern Bell Telephone Company (SWBT) and the undersigned representing SBC Communications Inc. (SBC) spoke via conference call with Mr. Chuck Needy, Accounting and Audits Division Staff, regarding some questions that the FCC had with respect to direct and indirect cost impacts associated with the Other Billing & Collection (OB&C) changes filed on December 17, 1997, in Pacific Bell's Access Reform Tariff filing. Pacific Bell had filed an adjustment to its previously filed exogenous cost for the OB&C rule change pursuant to the Memorandum Opinion and Order released on December 1, 1997 addressing 1997 Annual Access Tariff Filing issues.

The attached document was provided to Mr. Needy to provide an explanation concerning the method used to calculate the adjustment and to provide an understanding of the impact (direct and indirect) as filed by Pacific Bell (Pacific).

Based on the FCC's analysis of Pacific's data, as previously submitted, Mr. Needy expected that the total exogenous adjustment would be approximately \$6.2 Million rather than almost \$5.2 Million as filed by Pacific on December 17. Mr. Needy requested an explanation of the difference and an analysis of the direct and indirect cost components. SBC's explanation is provided below.

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SBC's analysis of the Pacific and SBC OB & C studies showed that two primary differences existed between the analyses. First, SBC adjusted the 1996 base data used to analyze the other billing and collection impact to reflect the removal of nonregulated pay telephone costs. This resulted in a small decrease to direct expenses (Customer Services Expenses, Category 2) and an increase in indirect cost allocations. This resulted in a larger portion of General Support Facilities investments and related costs being impacted by the Other Billing and Collection change. The Pacific data did not reflect this adjustment. This adjustment only had a minor impact on the results. The second item, allocation of FCC depreciation reserve adjustment, caused the majority of the difference.

Comparisons of the SBC amounts and the Pacific amounts are shown on the attachments. Page 4 of the attachment details the difference in the SBC study not reflecting a modified allocation of the FCC reserve adjustment. The allocation of the FCC reserve adjustment is shown on the bottom of Page 4 of the attachment. If the modified allocation of the FCC reserve adjustment is reflected in the SBC analysis, the following estimated reductions to costs are realized as shown on Page 4 of the attachment:

Common Line --	\$553,000
Traffic Sensitive --	100,000
Trunking --	260,000
<u>Interexchange --</u>	<u>1,000</u>
Total	\$912,000

Thus, total regulated interstate rates would be further reduced by approximately \$912,000. The total adjustment necessary to the original Pacific exogenous cost adjustment is therefore \$6.1 Million (i.e., \$5.2 Million as shown in the Table 4, column d of Pacific's December 17, 1997 filing, plus \$.9 Million). This amount is very close to the FCC's expected adjustment amount.

SBC plans to file corrections to its interstate access tariffs in the near future to reflect the \$912,000 reduction.

Please include this letter and attachment in the record of these proceedings in accordance with Section 1.1206(a)(1) of the Commission's Rules.

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Acknowledgment and date of receipt of this transmittal are requested. A duplicate transmittal letter is attached for this purpose.

Please stamp and return the provided copy to confirm your receipt. Please contact me at (202) 326-8894 should you have any questions or require additional information concerning this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "B. J. Baumgardner". The signature is written in a cursive, somewhat stylized font.

Attachment

Cc: Mr. Chuck Needy  
Accounting and Audits Division

**PACIFIC BELL - ANALYSIS OF DIRECT EXPENSES RELATED TO OTHER BILLING AND COLLECTION CHANGE**

Pacific Base W/FCC Adjustments	STS	INTER	CL	TS	TRAN	B&C	IX
1 Investment	25,175,481	5,696,807	3,454,789	636,493	1,604,828	-	697
2 Reserves	13,857,687	3,223,968	1,970,653	352,872	900,054	-	389
3 Ratebase	11,317,794	2,472,839	1,484,136	283,621	704,774	-	308
4 Return	1,131,779	278,194	166,965	31,907	79,287	-	35
5 Fixed Charges	298,677	81,395	49,523	8,818	23,045	-	10
6 IRS Adj	47,834	13,039	7,902	1,457	3,677	-	2
7 CCFT Adj	7,240	4,865	2,948	544	1,372	-	1
8 ITC	33,936	9,424	5,734	1,021	2,668	-	1
9 SIT	116,026	26,802	15,967	3,164	7,667	-	3
10 FIT	370,627	84,449	50,162	10,078	24,199	-	11
11 Expenses	4,877,071	1,180,099	638,053	151,107	337,148	53,527	263
12 Other Taxes	125,879	36,708	22,334	3,977	10,393	-	5
13 Revenue Requirements	6,621,383	1,606,252	893,482	200,232	458,695	53,527	316

SBC Base W/FCC Adj (Adj for Pay)	STS	INTER	CL	TS	TRAN	B&C	IX
1 Investment	26,132,921	5,637,180	3,402,432	629,357	1,604,359	-	693
2 Reserves	13,651,166	3,154,425	1,924,208	334,222	895,632	-	369
3 Ratebase	12,481,755	2,482,755	1,478,224	295,135	708,727	-	324
4 Return	1,404,197	279,310	166,300	33,203	79,732	-	36
5 Fixed Charges	377,469	81,166	48,984	9,171	23,000	-	10
6 IRS Adj	60,873	12,964	7,824	1,465	3,674	-	2
7 CCFT Adj	-	-	-	-	-	-	-
8 ITC	43,030	9,347	5,641	1,056	2,649	-	1
9 SIT	150,884	29,024	17,179	3,525	8,311	-	4
10 FIT	501,554	95,410	56,361	11,666	27,351	-	13
11 Expenses	6,027,582	1,178,005	633,878	156,840	335,483	52,925	271
12 Other Taxes	161,370	35,052	21,155	3,959	9,934	-	4
13 Revenue Requirements	8,245,588	1,616,801	894,874	209,192	460,811	52,925	329

**PACIFIC BELL - ANALYSIS OF DIRECT EXPENSES RELATED TO OTHER BILLING AND COLLECTION CHANGE**

Pacific Base W/33% Allocation	STS	INTER	CL	TS	TRAN	B&C	IX
1 Investment	25,162,838	5,728,496	3,474,066	639,931	1,613,899	-	700
2 Reserves	13,863,820	3,244,006	1,982,845	355,043	905,827	-	391
3 Ratebase	11,299,018	2,484,490	1,491,221	284,888	708,072	-	309
4 Return	1,129,902	279,505	167,762	32,050	79,658	-	35
5 Fixed Charges	298,172	81,900	49,830	8,872	23,188	-	10
6 IRS Adj	47,754	13,119	7,951	1,466	3,700	-	2
7 CCFT Adj	7,219	4,885	2,961	546	1,378	-	1
8 ITC	33,886	9,475	5,765	1,026	2,683	-	1
9 SIT	115,835	26,908	16,032	3,175	7,698	-	3
10 FIT	370,009	84,762	50,352	10,112	24,287	-	11
11 Expenses	4,849,729	1,207,389	641,108	151,677	338,592	75,748	263
12 Other Taxes	125,692	36,895	22,448	3,997	10,446	-	5
13 Revenue Requirements	6,591,167	1,635,460	897,703	201,011	460,681	75,748	317
SBC Base W/33% Alloc (Adj for Pay)	STS	INTER	CL	TS	TRAN	B&C	IX
1 Investment	26,132,921	5,667,286	3,420,673	632,652	1,612,922	-	696
2 Reserves	13,651,166	3,168,143	1,932,519	335,723	899,532	-	370
3 Ratebase	12,481,755	2,499,143	1,488,154	296,929	713,390	-	326
4 Return	1,404,197	281,154	167,417	33,405	80,256	-	37
5 Fixed Charges	377,469	81,658	49,282	9,225	23,140	-	10
6 IRS Adj	60,873	12,964	7,824	1,464	3,674	-	2
7 CCFT Adj	-	-	-	-	-	-	-
8 ITC	43,030	9,396	5,671	1,062	2,663	-	1
9 SIT	150,884	29,213	17,293	3,545	8,365	-	4
10 FIT	501,554	96,042	56,744	11,733	27,529	-	13
11 Expenses	6,027,582	1,204,717	636,811	157,410	336,894	74,721	271
12 Other Taxes	161,370	35,238	21,268	3,980	9,986	-	4
13 Revenue Requirements	8,245,588	1,646,364	899,533	210,073	463,031	74,721	329

**PACIFIC BELL - ANALYSIS OF DIRECT EXPENSES RELATED TO OTHER BILLING AND COLLECTION CHANGE**

Pacific Base Differences (33%-Base)	STS	INTER	CL	TS	TRAN	B&C	IX
1 Investment	(12,643)	31,689	19,277	3,438	9,070	-	3
2 Reserves	6,133	20,038	12,192	2,171	5,773	-	2
3 Ratebase	(18,776)	11,651	7,085	1,267	3,297	-	1
4 Return	(1,878)	1,311	797	142	371	-	0
5 Fixed Charges	(506)	505	307	55	143	-	0
6 IRS Adj	(80)	80	48	9	23	-	0
7 CCFT Adj	(21)	21	13	2	6	-	0
8 ITC	(50)	50	31	5	14	-	0
9 SIT	(191)	107	65	12	30	-	0
10 FIT	(618)	314	191	34	89	-	0
11 Expenses	(27,342)	27,290	3,055	570	1,444	22,221	1
12 Other Taxes	(187)	187	114	20	53	-	0
13 Revenue Requirements	(30,216)	29,208	4,221	779	1,986	22,221	1

SBC Base Differences (33%-Base)	STS	INTER	CL	TS	TRAN	B&C	IX
1 Investment	-	30,106	18,241	3,295	8,563	-	3
2 Reserves	-	13,718	8,311	1,501	3,900	-	1
3 Ratebase	-	16,388	9,930	1,794	4,663	-	2
4 Return	-	1,844	1,117	202	525	-	0
5 Fixed Charges	-	492	298	54	140	-	-
6 IRS Adj	-	-	-	(1)	-	-	-
7 CCFT Adj	-	-	-	-	-	-	-
8 ITC	-	49	30	6	14	-	-
9 SIT	-	189	114	20	54	-	-
10 FIT	-	632	383	67	178	-	-
11 Expenses	-	26,712	2,933	570	1,411	21,796	-
12 Other Taxes	-	186	113	21	52	-	-
13 Revenue Requirements	-	29,563	4,659	881	2,220	21,796	-

**PACIFIC BELL - ANALYSIS OF DIRECT EXPENSES RELATED TO OTHER BILLING AND COLLECTION CHANGE**

Pacific/SBC Impact Differences)	STS	INTER	CL	TS	TRAN	B&C	IX
1 Investment	(12,643)	1,583	1,036	143	507	-	0
2 Reserves	6,133	6,320	3,881	670	1,873	-	1
3 Ratebase	(18,776)	(4,737)	(2,845)	(527)	(1,366)	-	(1)
4 Return	(1,878)	(533)	(320)	(59)	(154)	-	(0)
5 Fixed Charges	(506)	13	9	1	3	-	0
6 IRS Adj	(80)	80	48	10	23	-	0
7 CCFT Adj	(21)	21	13	2	6	-	0
8 ITC	(50)	1	1	(1)	0	-	0
9 SIT	(191)	(82)	(49)	(8)	(24)	-	0
10 FIT	(618)	(318)	(192)	(33)	(89)	-	0
11 Expenses	(27,342)	578	122	0	33	425	1
12 Other Taxes	(187)	1	1	(1)	1	-	0
13 Revenue Requirements	(30,216)	(355)	(438)	(102)	(234)	425	1

o Differences between SBC amounts and Pacific amounts are primarily related to differences between reserve impacts.

o The reserve difference is almost entirely related to the allocation of FCC reserve adjustments.

		INTER	CL	TS	TRAN	B&C	IX
FCC Reserve Adjustment Impact -SBC	Before	183,710	111,306	20,118	52,263	-	23
	After	183,710	111,306	20,118	52,263	-	23
	Impact	-	-	-	-	-	-
FCC Reserve Adjustment Impact - Pac	Before	214,125	130,277	23,196	60,625	-	26
	After	208,041	126,575	22,537	58,903	-	26
	Impact	6,084	3,702	659	1,722	-	-
SBC FCC Rsv Adj. Impact - Revised	Before	183,710	111,306	20,118	52,263	-	23
	After (1)	189,340	114,721	20,733	53,867	-	19
	Impact	(5,630)	(3,415)	(615)	(1,604)	-	4
	ROR@.1125	(633)	(384)	(69)	(180)	-	0
	Est FIT&SIT	(279)	(169)	(30)	(79)	-	0
	Rev Req Impact	(912)	(553)	(100)	(260)	-	1

**PACIFIC BELL - ANALYSIS OF DIRECT EXPENSES RELATED TO OTHER BILLING AND COLLECTION CHANGE**

(1) The interstate amount was determined assuming the use of the modified big three expense factor shown below (20.18%)

Part 69 amounts were allocated based on the percentage distribution of Part 69 other investment shown below.

Part 36 Big 3 Expense and 69 Other Inv % - Before	19.58%	60.59%	10.95%	28.45%	0.00%	0.01%
- After	20.18%	60.59%	10.95%	28.45%	0.00%	0.01%